



REPORT OF THE TRUSTEE

Civille & Tang PLLC

Joyce C.H. Tang

Betty Johnson v. Arnold I. Palacios, et al., CV 09-00023

For the Period FY 2024 through First Quarter FY 2025

January 2, 2025

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I. INTRODUCTION

The Trustee presents her report on the operations of the Settlement Fund for the period of FY 2024 through FY 2025 through December 15, 2024.

Four years ago, the COVID-19 pandemic triggered one of the largest global economic crises. The CNMI's economy was devastated and Saipan has struggled to revive its tourism economy. In the past year, tourism in the CNMI continues to suffer with the withdrawal of Asiana Airlines and permanent closure of the Hyatt Regency Saipan in June 2024.¹ The number of daily flights from South Korea, currently the largest source market, was reduced from four flights to two flights per day.² Although arrivals in FY 2024 increased by 22% (237,498 visitors) from FY 2023 arrivals (194,744 visitors),³ the total number of tourists coming to Saipan in 2024 represents less than half of the visitors in 2019 of 424,838. The average hotel occupancy rate as of October 2024 was about 32%, far below the 70-80% occupancy rate that hotels require to break even.⁴

¹ See Hyatt to shut down on June 30, available at https://www.mvariety.com/news/local/hyatt-to-shut-down-on-june-30/article_47f4d004-0616-11ef-9d52-1bac5d1b66d3.html (last visited Jan. 2, 2025); Asiana to close Saipan office, available at https://www.saipantribune.com/news/local/asiana-to-close-saipan-office/article_4b0a447a-23e6-11ef-9bf6-1f09e0f5c5a6.html (last visited January 2, 2025).

² See T'way, Jeju Air to drop one daily flight to CNMI, available at <https://www.kuam.com/story/51528461/tway-jeju-air-to-drop-one-daily-flight-to-cnmi> (last visited Jan. 2, 2025); HANMI occupancy down 37% in October, available at https://www.mvariety.com/news/local/hanmi-occupancy-down-37-in-october/article_32fa420c-b6c8-11ef-8157-23c96927c1cc.html (last visited Jan. 2, 2025).

³ See MVA: Over 19,000 arrivals in September (2023), available at https://www.saipantribune.com/news/local/arrivals-drop-26-in-september/article_f880eaf6-8ad3-11ef-8b0b-3baccb0ed6b1.html (last visited Jan. 2, 2025); MVA: Fiscal year 2019 visitor arrivals down 30%, available at https://www.saipantribune.com/news/local/mva-fiscal-year-2019-visitor-arrivals-down-30/article_68fbdcf1-823a-5df9-8b70-0e75dbe2f565.html (last visited Jan. 2, 2025); November arrivals down 23%, available at https://www.mvariety.com/news/local/november-arrivals-down-23/article_31c71598-bbac-11ef-bee2-fb2444b69fdb.html (last visited Jan. 2, 2025).

⁴ See HANMI occupancy down 37% in October, available at https://www.mvariety.com/news/local/hanmi-occupancy-down-37-in-october/article_32fa420c-b6c8-11ef-8157-23c96927c1cc.html (last visited Jan. 2, 2025).

Recent developments may improve tourism in 2025. MB Capital LLC, a local business, acquired the Hyatt hotel property and now operates the hotel as the Marianas Beach Resort with plans to brand it as the Sheraton hotel in the near future.⁵ Micronesia Air Connections Services, an existing air carrier servicing the CNMI, announced that it would begin inter-island air service between the CNMI and Guam in 2025.⁶

To increase government revenue, the CNMI Government has proposed bills to increase taxes. Legislation includes imposing a 3% construction tax for construction in the CNMI and a one-time tax hike on business gross revenue tax from 2.5% to 3% for annual gross revenue ranging from \$100,000-\$250,000.⁷

Despite the economic challenges and funding issues, the Government has prioritized the payment of the Minimum Annual Payment (“MAP”) to the Settlement Fund. For FY 2025, the Government paid the MAP of \$31.3 million in a lump sum payment. The funding source for the \$31.3 million was a loan from the Bank of Guam.

The Settlement Fund’s investments have benefitted from the strong stock market performance. The investment portfolio increased by 16% from 2023 to 2024. The Settlement Fund’s portfolio value was \$166.3 million as of November 30, 2024.

⁵ See Former Hyatt to reopen as Marianas Beach Resort, available at https://www.mvariety.com/news/local/former-hyatt-to-reopen-as-marianas-beach-resort/article_2583db08-a47e-11ef-a5a8-1bffd6cd271a.html (last visited Jan. 2, 2025).

⁶ See MACS’ \$8.2M investment hinges on tax exemption, available at https://www.mvariety.com/news/local/macs-8-2m-investment-hinges-on-tax-exemption/article_047beffe-9ce5-11ef-b023-dfaed345e93b.html (last visited Jan. 2, 2025); CEDA grants MACS QC, recommends 100% tax abatement for 22 years, available at https://www.saipantribune.com/ceda-grants-macs-qc-recommends-100-tax-abatement-for-22-years/article_98f38060-bdd4-11ef-83d9-270f88ccdea4.html (last visited Jan. 2, 2025).

⁷ See Tax hike looms, available at https://www.mvariety.com/news/tax-hike-looms/article_7afe9c30-2644-11ee-9c52-3ba939285cd7.html (last visited Jan. 2, 2025); ‘This is the right time to do it,’ available at https://www.saipantribune.com/news/local/this-is-the-right-time-to-do-it/article_106daa6e-847b-11ef-948d-0b368dd1e0ad.html (last visited Jan. 2, 2025).

II. OVERVIEW OF SETTLEMENT FUND OPERATIONS

An overview of the Settlement Fund's operations for the period covering FY 2024 and the First Quarter of FY 2025 is presented in this section.

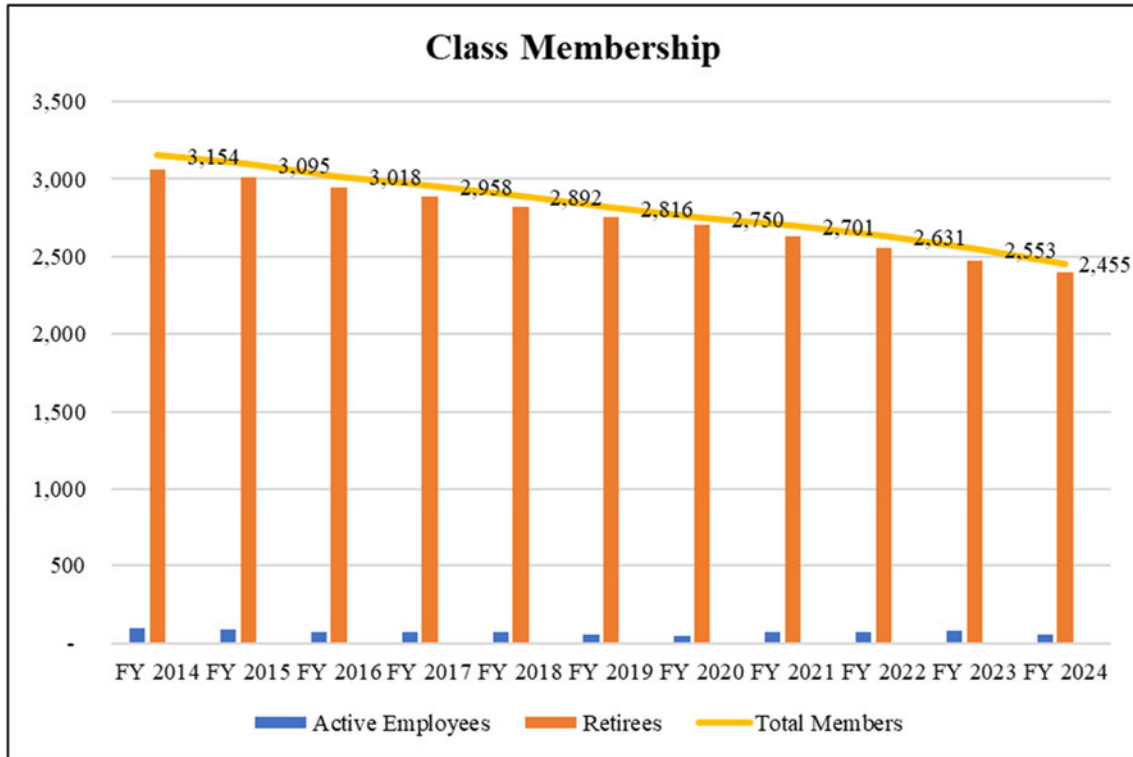
A. CLASS MEMBERSHIP DATA

As of September 30, 2024, the Settlement Fund's total membership was 2,455 members, broken down into two categories: (1) 2,400 retirees, and (2) 55 active employees. Of the 55 active employees, 21 of the members are retirees who returned to government service in 2024. At the end of FY 2024 (September 30, 2024), the class membership decreased by 98 members:

	9/30/2024	9/30/2023	9/30/2022	9/30/2021
Membership				
Active Employees (Class I)	41	59	56	58
Active Employees (Class II)	14	18	17	13
Total Active Employees	55	77	73	71
Retirees	2,400	2,476	2,558	2,630
Total Members	2,455	2,553	2,631	2,701

The reduction in class membership was due to deaths of members. Compared to total membership at the end of FY 2014 of 3,154 members, the class membership was reduced by 699 members, or 22.16% as of the end of FY 2024.

The graph below shows the declining membership over the past ten years.



A breakdown of the distribution of benefit payments based on the class members' place of retirement and classification is presented in **Chart 1** below.

Chart 1
(Period Ending 9/30/2024)

PLACE OF RETIREMENT	Total # of Members	NMISF Class Member Classification					Total Benefit Payments
		Retiree Disabled	Retiree	Surviving Child Disabled	Surviving Child	Surviving Spouse	
ROTA	256	\$ 1,106.33	\$ 194,922.42	\$ 187.15	\$ 1,089.97	\$ 35,365.46	\$ 232,671.33
SAIPAN	1965	\$ 3,747.64	\$ 1,416,189.29	\$ 956.86	\$ 8,240.28	\$ 279,848.79	\$ 1,708,982.86
TINIAN	179	\$ 216.25	\$ 114,623.92	\$ -	\$ 794.54	\$ 28,736.78	\$ 144,371.49
Total Payments @ 100%	2400	\$ 5,070.22	\$ 1,725,735.63	\$ 1,144.01	\$ 10,124.79	\$ 343,951.03	\$ 2,086,025.68
Total Payments @ 75%		\$ 3,802.67	\$ 1,294,301.72	\$ 858.01	\$ 7,593.59	\$ 257,963.27	\$ 1,564,519.26

Of the 2,400 class members receiving benefit payments as of September 30, 2024, 82% of the members are from Saipan, 11% from Rota, and 7% from Tinian.

A breakdown of the distribution of benefit payments based on the class members' residence and classification is presented in **Chart 2** below.

Chart 2
(Period Ending 9/30/2024)

PLACE OF RESIDENCE	Total # of Members	NMISF Class Member Classification					Total Benefit Payments
		Retiree Disabled	Retiree	Surviving Child Disabled	Surviving Child	Surviving Spouse	
CNMI	1706	\$ 3,797.22	\$ 1,335,280.94	\$ 1,051.32	\$ 6,542.31	\$ 240,094.74	\$ 1,586,766.53
CONTINENTAL U.S. & HI	540	\$ 1,273.00	\$ 314,154.63	\$ 92.69	\$ 2,689.64	\$ 82,610.47	\$ 400,820.43
FSM	8	\$ -	\$ 1,358.31	\$ -	\$ -	\$ 3,653.94	\$ 5,012.25
GUAM	79	\$ -	\$ 43,368.21	\$ -	\$ 892.84	\$ 7,936.52	\$ 52,197.57
NON U.S.	43	\$ -	\$ 16,393.33	\$ -	\$ -	\$ 6,819.09	\$ 23,212.42
REPUBLIC OF PALAU	24	\$ -	\$ 15,180.21	\$ -	\$ -	\$ 2,836.27	\$ 18,016.48
Total Payments @ 100%	2400	\$ 5,070.22	\$ 1,725,735.63	\$ 1,144.01	\$ 10,124.79	\$ 343,951.03	\$ 2,086,025.68
Total Payments @ 75%	2400	\$ 3,802.67	\$ 1,294,301.72	\$ 858.01	\$ 7,593.59	\$ 257,963.27	\$ 1,564,519.26

Of the total benefit payments paid in FY 2024, 76% of the total benefits were paid to CNMI residents, and 19% were paid to members living in the continental United States and Hawai'i. The remaining 5% of benefits were paid to members residing in Guam, other Micronesian islands, and non-U.S. jurisdictions.

B. MINIMUM ANNUAL PAYMENT AND OTHER SOURCES OF FUNDS

The Government timely paid the MAP, the Group Health and Life Insurance Program ("GHLIP") payments, and the voluntary 25% benefit payments in FY 2024. For the upcoming FY 2025, the CNMI Budget did not appropriate sufficient funding to fully cover the GHLIP payments and the voluntary 25% payments. See **Exhibit 1** (FY 2025 Budget Law) attached.

1. Minimum Annual Payment

The MAP represents the 75% annual benefit payments the Government is required to pay under the Settlement Agreement. Since the implementation of the bi-weekly MAP payments in 2018, the Settlement Fund has avoided having to draw down on its investments to pay the 75%

benefit payments. The status of MAP payments is reported and published on the Settlement Fund's website and updated regularly at <https://www.nmisf.com/rfp/annual-payment-status/>.

Milliman, Inc., the Settlement Fund's actuary consultant, issued its FY 2023 Actuarial Valuation Report on December 9, 2024, confirming the MAP for FY 2024 should be \$33 million, and that the projected MAP for FY 2025 will be \$31 million. *See FY 2023 Actuarial Valuation Report* at 1, attached hereto as **Exhibit 2**.

In FY 2024, the Government paid \$34 million MAP. *See Schedule of CNMI Government Contribution Payments (FY 2024)*, attached hereto as **Exhibit 3**. The \$34 million MAP was based on the FY 2022 Actuarial Valuation issued on October 17, 2023. *See Excerpt of the FY 2022 Actuarial Valuation Report* (ECF No. 865-2 at 5) below.

➤ The minimum payment for fiscal year 2024 is estimated to be \$34,000,000 and is expected to decline each year thereafter as shown below:

Fiscal Year Ending September 30,	Estimated Minimum Payment
2024	\$ 34,000,000
2025	\$ 32,000,000
2026	\$ 30,000,000
2027	\$ 28,000,000
2028	\$ 26,000,000
2029	\$ 24,000,000
2030	\$ 22,000,000
2031	\$ 20,000,000
2032	\$ 18,000,000
2033	\$ 16,000,000
2034	\$ 14,000,000
2035	\$ 13,000,000

The FY 2024 MAP amount was adjusted downwards in the FY 2023 Actuarial Valuation Report issued on December 9, 2024, from \$34 million to \$33 million.

➤ The minimum payment for fiscal year 2025 is estimated to be \$31,000,000 and is expected to decline each year thereafter as shown below:

Fiscal Year Ending September 30,	Estimated Minimum Payment
2025	\$ 31,000,000
2026	\$ 29,000,000
2027	\$ 27,000,000
2028	\$ 25,000,000
2029	\$ 23,000,000
2030	\$ 21,000,000
2031	\$ 19,000,000
2032	\$ 17,000,000
2033	\$ 16,000,000
2034	\$ 15,000,000
2035	\$ 14,000,000
2036	\$ 13,000,000
2037	\$ 12,000,000

Exhibit 2. Based on the recent FY 2023 Actuarial Valuation Report, the Government overpaid MAP by \$1 million at the end of FY 2024.

For FY 2025, the Government is required to pay \$31 million MAP. The Government borrowed \$30.19 million from the Bank of Guam and paid the \$30.19 million MAP in a lump sum payment to the Settlement Fund on November 13, 2024. Total payments received by the Settlement Fund for FY 2025 MAP is \$31.5 million. *See Schedule of CNMI Government Contribution Payments (FY 2025)*, attached hereto as **Exhibit 4.** The additional \$300,000 MAP payment was due to earlier MAP from the Government prior to the Bank of Guam loan disbursement.

Of the \$30.19 million received from the loan \$28.41 million was deposited (net of the 75% amount for the November 30, 2024 pay period) in a Special Purpose Bank of Hawaii money market account. The funds in the Special Purpose account are invested in the Dreyfus Treasury Obligations Cash Management Fund (DTRXX).⁸ All interest earned on the funds belong to the

⁸ The Dreyfus Treasury Obligations Cash Management Fund reported an average annual return of 4.98% as of November 30, 2024. *See Dreyfus Treasury Obligations Cas Management*, Dreyfus,

Government. The required amounts are withdrawn on a semi-monthly basis to meet the required 75% benefit payments. The principal balance in the Special Account as of December 31, 2024 is \$25.28 million.

The Government has fully paid the FY 2025 MAP and has an excess credit of \$1.3 million. The Settlement Fund has requested and is waiting on instructions from the Government regarding how it wants to apply the \$1.3 million credit.

2. Alternative Payment of a Greater Amount

The Settlement Agreement requires the Government to make APGA payments equal to the difference of 17% of the Government's Total Annual Revenue, after deducting the amount of MAP paid. *Settlement Agreement* § 4.2, ECF No. 468-1 at 11-12. APGA payments previously received were invested along with other investment funds in the Settlement Fund's investment portfolio.

The Government's most recent financial audit was for FY 2021, issued in August 2024. The FY 2021 audit, which confirms the revenue collected, continues to decline from a peak of \$344.6 million in 2017. The chart below shows the downward trend.

<https://www.dreyfus.com/products/mm/fund/dreyfus-treasury-obligations-cash-management.shareclass.Wealth-Shares.html#?section=performance> (last visited Jan. 2, 2025).

Chart 3

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
TOTAL ANNUAL REVENUE:								
Taxes	154,831,829.00	149,719,538.00	226,119,758.00	279,791,409.00	267,791,170.00	196,920,863.00	187,611,870.00	147,613,026.00
Licenses and Fees	46,005,588.00	31,392,355.00	38,694,768.00	36,506,891.00	21,473,133.00	34,411,145.00	17,686,621.00	18,644,523.00
Charges for Sales and Services	5,805,208.00	6,133,601.00	7,209,159.00	8,659,050.00	9,097,118.00	7,860,093.00	7,650,882.00	2,049,978.00
Contributions from Component Units	653,737.00	5,438,928.00	2,779,810.00	2,262,224.00	1,904,725.00	2,590,236.00	2,010,735.00	1,661,568.00
Interest and Dividends	303,884.00	211,916.00	83,583.00	233,796.00	582,210.00	626,315.00	155,152.00	584,257.00
Other Sources	6,563,386.00	7,089,653.00	12,901,824.00	17,093,152.00	8,878,379.00	7,123,549.00	9,602,365.00	19,735,238.00
Recoveries	451,952.00	2,854,730.00						
Total Annual Revenue	214,615,884.00	202,940,761.00	287,790,902.00	344,566,522.00	309,726,735.00	249,532,201.00	224,717,625.00	190,288,590.00
LESS DEDUCTIONS:								
Minimum Annual Payments	25,000,000.00	27,000,000.00	30,000,000.00	33,000,000.00	45,000,000.00	44,000,000.00	42,000,000.00	40,000,000.00
GHLI								
Health Insurance	6,782,603.65	7,169,924.32	10,208,008.15	10,624,546.17	10,162,245.62	10,693,524.62	10,566,700.86	10,706,972.56
Life Insurance	616,816.29	559,198.05	553,840.62	580,971.42	600,173.59	576,158.66	563,038.40	544,761.16
Class Counsel Fees								
Bronster Hoshibata (\$6,500,000)	150,000.00	1,475,000.01	2,708,333.33	2,166,666.66				
Stephen C. Woodruff (\$185,000)	185,000.00							
Bruce Jorgensen (\$800,000)		\$800,000.00						
Total Deductions	32,734,419.94	37,004,082.38	43,470,182.10	46,372,184.25	55,762,419.21	55,271,683.28	53,129,739.26	51,251,733.72
NET TOTAL ANNUAL REVENUE:	181,881,464.06	165,936,678.62	244,320,719.90	298,194,337.75	253,964,315.79	194,260,517.72	171,587,885.74	139,036,856.28
Paragraph 4.2 - Alternative Payment of a Greater Amount								
17% of Net Total Annual Revenue	30,919,797.89	28,209,243.87	41,534,522.38	50,693,037.42	43,173,933.68	33,024,288.01	29,169,940.58	23,636,265.57
Less: Minimum Annual Payment	25,000,000.00	27,000,000.00	30,000,000.00	33,000,000.00	45,000,000.00	44,000,000.00	42,000,000.00	40,000,000.00
Amount Due to NMISF	5,919,797.89	1,209,243.87	11,534,522.38	17,693,037.42	-	-	-	-

The Government's FY 2022 through 2024 budgets confirm the continuing downward revenue trend.

YEAR	TOTAL GOVERNMENT BUDGET
FY 2022	\$103,384,323
FY 2023	\$109,782,265
FY 2024	\$119,199,812
FY 2025	\$117,040,086

The Settlement Fund does not expect to receive APGA payments for these periods in the near future.

3. 25% Benefit - Voluntary Payment

The Government paid \$12.6 million for FY 2024 and \$3.1 million for the first quarter of FY 2025 for the 25% benefit payments. *See Accounting of 25% Payments by CNMI Government FY 2024-FY 2025*, attached hereto as **Exhibit 5**. The 25% benefit payment is not required under the Settlement Agreement and is based solely on the discretion of the Governor and the Legislature, which appropriates the funds.

The Government funded the FY 2024 25% payments by utilizing the Governor's reprogramming authority under Public Law 23-09 (FY 2024 Budget Law) and by legislative appropriation under Public Law 23-18. Similarly, the FY 2025 Budget Law does not appropriate funds for the 25% benefit payments. The Governor has utilized his reprogramming authority under the FY 2025 Budget Law to fund the 25% benefit payments. Recently, the Governor and Lieutenant Governor met with members of the Legislature to discuss FY 2025 budget amendments which may include legislative appropriation to fund the remaining 25% payments.⁹

4. Employer Contributions ("ER Contributions")

The Government and its Autonomous Agencies are required to submit ER contributions after each pay period pursuant to Section 5.0 of the Settlement Agreement. The ER contributions received in FY 2024 and the first quarter of FY 2025 are presented in **Chart 4** below.¹⁰

⁹ See Palacios, Apatang meet with House leadership on FY 2025 budget updates, *available at* https://www.mvariety.com/news/local/palacios-apatang-meet-with-house-leadership-on-fy-2025-budget-updates/article_984f26a6-bc4d-11ef-9590-8f4fe403c525.html (last visited Jan. 2, 2025);

¹⁰ The ER contribution rate is 37.3909% for the CNMI (federal), CHCC, PSS, Tinian Gaming Casino Commission, and Tinian Mayor's Office. The ER contribution rate for five of the agencies is less than the standard 37.3909% rate: the CNMI (local), CUC, CDA, and CPA pay 30%; and NMC pays 20%. See Order (ECF No. 756) (holding that the lower ER rate applied to NMC because the lower rate was the rate NMC had been paying as of June 26, 2013).

Chart 4

Agency	Applicable ER Rate	ER Payments Received				
		FY 2021	FY 2022	FY 2023	FY 2024	FY 2025 (as of 12/31/2024)
CNMI Government - Local	30%	\$ 367,268.53	\$ 411,855.67	\$ 426,473.44	\$ 387,862.11	\$ 99,409.77
CNMI Government - Federal	37.3909%	\$ 56,650.13	\$ 105,338.99	\$ 77,778.99	\$ 37,710.56	\$ 14,243.58
Commonwealth Health Care Corporation ("CHCC")	37.3909%	\$ 312,720.83	\$ 190,662.23	\$ 167,248.03	\$ 146,858.52	\$ 39,794.29
Public School System ("PSS")	37.3909%	\$ 397,238.14	\$ 428,926.07	\$ 356,998.67	\$ 292,069.66	\$ 56,571.39
Northern Marianas College ("NMC")	20%	\$ 61,839.51	\$ 65,843.74	\$ 57,478.96	\$ 62,648.24	\$ 12,275.31
Commonwealth Utilities Corporation ("CUC")	30%	\$ 132,142.81	\$ 167,620.99	\$ 158,453.49	\$ 104,494.32	\$ 23,746.01
Commonwealth Development Authority ("CDA")	30%	\$ 69,758.55	\$ 68,968.81	\$ 72,666.07	\$ 75,788.23	\$ 10,076.51
Commonwealth Ports Authority ("CPA")	30%	\$ 22,344.20	\$ 29,524.24	\$ 10,278.81	\$ 12,498.47	\$ 6,589.53
Tinian Gaming Casino Commission ("TGCC")	37.3909%	\$ -	\$ -	\$ -	\$ -	\$ -
Tinian Mayor's Office ("TMO")	37.3909%	\$ 8,846.65	\$ -	\$ -	\$ -	\$ -
TOTAL		\$ 1,428,809.35	\$ 1,468,740.74	\$ 1,327,376.46	\$ 1,119,930.11	\$ 262,706.39

The Central Government and the following government agencies are relatively current in paying their ER contributions: CDA, CHCC, and NMC are current through December 14, 2024.

In the 2023 Report of the Trustee, the Settlement Fund reported that PSS owes ER contributions to the Settlement Fund for "retention incentive bonuses" paid to 23 Class Members. *See* ECF No. 865 at 14-16. In December 2023, PSS cured the deficiency with a payment of \$179,913.45, which covered the delinquent ER and EE contributions. PSS stated that it was making this payment "under protest."

With respect to the CUC, the Settlement Fund and the CUC previously reached a settlement regarding the CUC's outstanding ER balance of \$3,469,797. As of December 15, 2024, the CUC has paid \$1 million. *See Section IV* below. Separately, because CUC did not timely remit contributions for a retiree who returned to service, there is a balance of \$10,102.74 in penalties due to the Settlement Fund.

At this time, CPA, PSS, and the Tinian Casino Gaming Commission are not current on payment of ER contributions. As part of the Settlement Fund's audits, it has determined that CPA, PSS, and the Tinian Casino Gaming Commission have not been remitting contributions for retirees

who returned to service. As of December 31, 2024, the total amount due and outstanding from these agencies are as follows:

- CPA - \$8,197.23
- PSS - \$35,709.42
- Tinian Casino Gaming Commission - \$11,253.19

The Settlement Fund has notified these agencies regarding payment of outstanding contributions.

C. AUDIT OF MEMBER FILES

1. Under and Over Payments

As of March 13, 2015, potential overpayments and underpayments to members determined by the benefit software were broken down as follows:

	Overpayment		Underpayment	
Class 1	75 members	\$617,293	33 members	\$58,201
Class 2	193 members	\$820,068	80 members	\$209,182
Disabled	8 members	\$56,448	11 members	\$63,143
TOTAL	276 members	\$1,493,809	124 members	\$330,526

The list of combined over and underpayments were audited by the Settlement Fund in five stages.

Audit Stages
Stage 1 – File is reviewed to identify issues pertaining to under/overpayment and to ensure all supporting documents are available.
Stage 2 – Data is recomputed by Member Services staff in accordance with the applicable laws and regulations governing the member’s annuity calculation.
Stage 3 – File is forwarded to Member Services Manager for recalculation and final review.

Stage 4 – Completed file is sent to the Audit department to ensure that calculations are accurate and in compliance with applicable laws and Fund rules and regulations.

Stage 5 – Audited file is forwarded to Legal Department for legal review. For overpayments, adverse letters are issued by the Administrator. For underpayments, a findings and recommendations letter is forwarded to the Trustee for approval of underpayment pay out.

Because the Settlement Fund gives priority to audits for retirees, death benefits, administrative appeals, and probate, as of December 15, 2024, eight files of member accounts were completed. The number of hours required to audit an account depends on the length of employment, the completeness of the records, and the additional research required to verify compliance with the numerous retirement laws enacted over the years. The audit of one account takes a minimum of 8 hours and up to 3 months, following the five stages of audit review outlined above.

The amount of overpayments and underpayments has been updated, as shown below.

Overpayment			Underpayment	
Class 1	15 members	\$ 149,015	11 members	\$ 64,294
Class 2	117 members	\$ 1,779,320	6 members	\$ 15,750
Disabled	0 members	\$ -	0 members	\$ -
TOTAL	132 members	\$ 1,928,335	17 members	\$ 80,044

2. Priority Audits

As noted above, the Settlement Fund prioritizes audits of other member files that are required when certain triggering events occur, such as: (a) the death of a retiree, (b) a new application for retirement or survivor's benefits, (c) a retiree's return to government service or reinstatement of retirement benefits upon termination of government reemployment, (d) pending

administrative appeals that were transferred to the Settlement Fund under the Settlement Agreement and new administrative appeals, and (e) pending probate matters. Due to the time sensitive nature of certain audits, the Settlement Fund prioritizes the review of these member files.

In the last Report of the Trustee (ECF No. 865), we reported 10 files pending legal review for FY 2023. Six accounts were found to have payment issues. The updated results for FY 2023 are presented in the chart below.

As of December 15, 2024, audits of 153 additional member accounts were completed. The results of the audit show that 26 did not have any payment issues. Of the remaining 127 files, 95 files have payment issues, and 32 files are pending legal review. The files containing payment issues are broken down as follows:

FY	Overpayment		Underpayment		Underpayment of Contributions	
2023	51 members	\$ 861,615	9 members	\$ 76,462	10 members	\$ 61,417
2024	79 members	\$ 2,173,992	5 members	\$ 70,622	7 members	\$ 14,345
2025 (as of 12/15/2024)	4 members	\$ 43,671	0 members	\$ -	0 members	\$ -

All members who were found to have been overpaid have received adverse decision letters.

Of the fourteen underpayments, twelve have been paid. The two remaining underpayments involve members with pending probate proceedings. Payments will be made once the probate court approves the distribution of payments.

Except for one member, members with underpaid employee contributions have paid; one member is currently in repayment.

On December 13, 2024, Ms. Remedio Sablan, the surviving spouse of David C. Sablan, wrote to Chief Judge Tydingco-Gatewood regarding her survivor benefits and the audit of her benefits. *See* ECF No. 877. The Trustee and Administrator Lillian M. Pangelinan called Ms. Sablan to discuss her concerns and explained that before benefits are processed, all files must

be audited to ensure that benefits are paid in accordance with the applicable laws. Ms. Sablan's application was timely reviewed and processed. Ms. Sablan responded and expressed her appreciation for the call and the response.

D. CONSULTANTS

Wilshire Investments is the Settlement Fund's investment consultant. Milliman Inc. acts as the Settlement Fund's actuarial consultant, and Ernst & Young acts as its auditor. All consultant reports are regularly updated and available at the Settlement Fund's website at <https://www.nmisf.com/audit-reports/>.

1. Investment Advisor

Maggie Ralbovsky, a principal of Wilshire, continues to provide investment advice to manage the Settlement Fund's investment portfolio. Wilshire's contract was renewed for FY 2025. The Settlement Fund pays a fixed fee of \$145,000 per year. There was no increase in the flat fee charged from the two previous years.

2. Actuary

Milliman, Inc. has acted as the Settlement Fund's actuary since March 2015. For FY 2018 through FY 2024, the Settlement Agreement requires an independent actuary to determine the amount of MAP to the Settlement Fund sufficient to enable the Settlement Fund to pay 75% of Class Members' Full Benefits each year for the Settlement Fund's expected life. *See Settlement Agreement* § 4.0, ECF No. 468-1 at 10-11. Milliman's FY 2023 Actuarial Valuation Report is attached as **Exhibit 2**.

3. Auditor

Ernst & Young LLP (“E&Y”) has acted as the auditor for the Settlement Fund since 2014. E&Y completed the audit for FY 2023 on November 19, 2024. A copy of the FY 2023 audit is attached hereto as **Exhibit 6**. The Settlement Fund received a clean audit for FY 2023.

E. UPDATES REGARDING SETTLEMENT FUND

Information regarding the Settlement Fund, including but not limited to the Government’s payments of MAP and investment reports, is posted regularly on the Settlement Fund website: <https://www.nmisf.com>. The Settlement Fund has published Newsletters to update its membership on the status of their fund. The Fifth Issue of the Settlement Fund Newsletter was published in December 2024 and will be sent to members by mail. The Settlement Fund newsletters are also available on the Settlement Fund website at <https://www.nmisf.com/news-events/newsletter/>.

III. FINANCIAL REPORT

A. FINANCIAL OVERVIEW

1. Sources of Funds

The Settlement Fund receives income from three main sources: (1) the MAP and APGA, (2) contributions, and (3) investments. A breakdown of the sources is shown in the table below.

Since FY 2020, the Settlement Fund has paid the benefit payments from the bi-weekly MAP payments and avoided having to liquidate its investments. For the periods ending on September 30, 2024 and September 30, 2023, the Sources of Funds and Expenses were as follows:

Sources of Funds		
	9/30/2024	9/30/2023
MAP	\$ 34,830,769.24	\$ 35,169,230.76
Contributions	\$ 1,814,279.10	\$ 5,169,582.26
Investment Income	\$ 5,956,403.64	\$ 5,936,053.85
Other Income	\$ 1,179.32	\$ 8,698.65
	\$ 42,602,631.30	\$ 46,283,565.52
Total Expense	\$ (39,730,008.14)	\$ (40,228,241.26)
*Realized Gain/(Loss)	\$ 222.95	\$ -
Net	\$ 2,872,846.11	\$ 6,055,324.26

See *Sources of Funds and Expenses for FY 2024*, attached hereto as **Exhibit 7**.

2. FY 2024 Performance

A summary of the FY 2024 budget and performance is presented in **Schedule 1** below. For FY 2024, the Settlement Fund was under the FY 2024 budget by 3.9% or \$1,613,850.

Schedule 1
FY 2024
Actual Expenses v. Budget Results

	Actual FY 2024 9/30/2024	FY 2024 Budget 9/30/2024
Benefits Payments (75%)		
Total Benefits Payment	37,859,862	39,050,000
Total Refunds	106,137	155,000
Total Benefits and Refunds Payment	37,965,998	39,205,000
General & Administrative Expenses		
Total Personnel Expenses	1,078,135	1,073,955
Total Professional Fees	418,026	717,000
Total General & Admin. Expenses	272,410	359,750
Total Expenses	39,734,570	41,355,705
Total Fixed Assets	15,786	8,500
Total Expenditures	39,750,355	41,364,205

3. Proposed FY 2025 Budget

The Settlement Fund's proposed FY 2025 budget is summarized in **Schedule 2** below.

Schedule 2
FY 2023, FY 2024, & Proposed FY 2025 Budget

	Approved FY 2023 Budget	Approved FY 2024 Budget	Proposed FY 2025 Budget	FY 2025 increase/ (decrease)	% (+/-) from previous budget
Benefits Payments					
Total Benefits Payment	39,550,000	39,050,000	38,375,000	(675,000)	-1.73%
Total Refunds	37,500	155,000	100,000	(55,000)	-35.48%
Total Benefits and Refunds Payment	39,587,500	39,205,000	38,475,000	(730,000)	-1.86%
General & Administrative Expenses					
Total Personnel Expenses	1,076,720	1,073,775	1,096,054	22,279	2.07%
Total Professional Fees	867,500	717,000	717,000	-	0.00%
Total General & Admin. Expenses	273,750	359,750	337,250	(22,500)	-6.25%
Total Expenses	41,805,470	41,355,525	40,625,304	(730,221)	-1.77%
Total Fixed Assets	8,500	8,500	13,500	5,000	58.82%
Total Expenditures	41,813,970	41,364,025	40,638,804	(725,221)	-1.75%

See **Exhibit 8**, detailed breakdown of the proposed budget for FY 2025.

The proposed budget for FY 2025 is \$40,638,804, which is a reduction of 1.75% from FY 2024 approved budget. The most significant expense increase for FY 2024 is for personnel and fixed assets.

- Personnel \$1,096,054 (increase of \$22,279 or 2.07%)
- Fixed Assets \$13,500 (increase of \$5,000 or 58.82%)

In the previous Report of the Trustee, the Settlement Fund reported an increase in the budget of \$155,000 for Class Member refunds, which covered refunds of overpaid interest caused by the incorrect calculation of interest due from Class Members by the NMI Retirement Fund. See ECF No. 865. The NMI Retirement Fund applied compound interest instead of simple interest for approximately 21 Class I members who paid the actuarially determined equivalent of Class II member contributions to retire without penalty pursuant to Public Law 13-60. The audit of Class Members has been completed, and most of the affected members, except three with files containing other issues, have been paid.

B. INVESTMENT REPORT

1. Investments and Policy

Since the last report provided to the Court, major policy shifts took place among the Central Banks around the world:

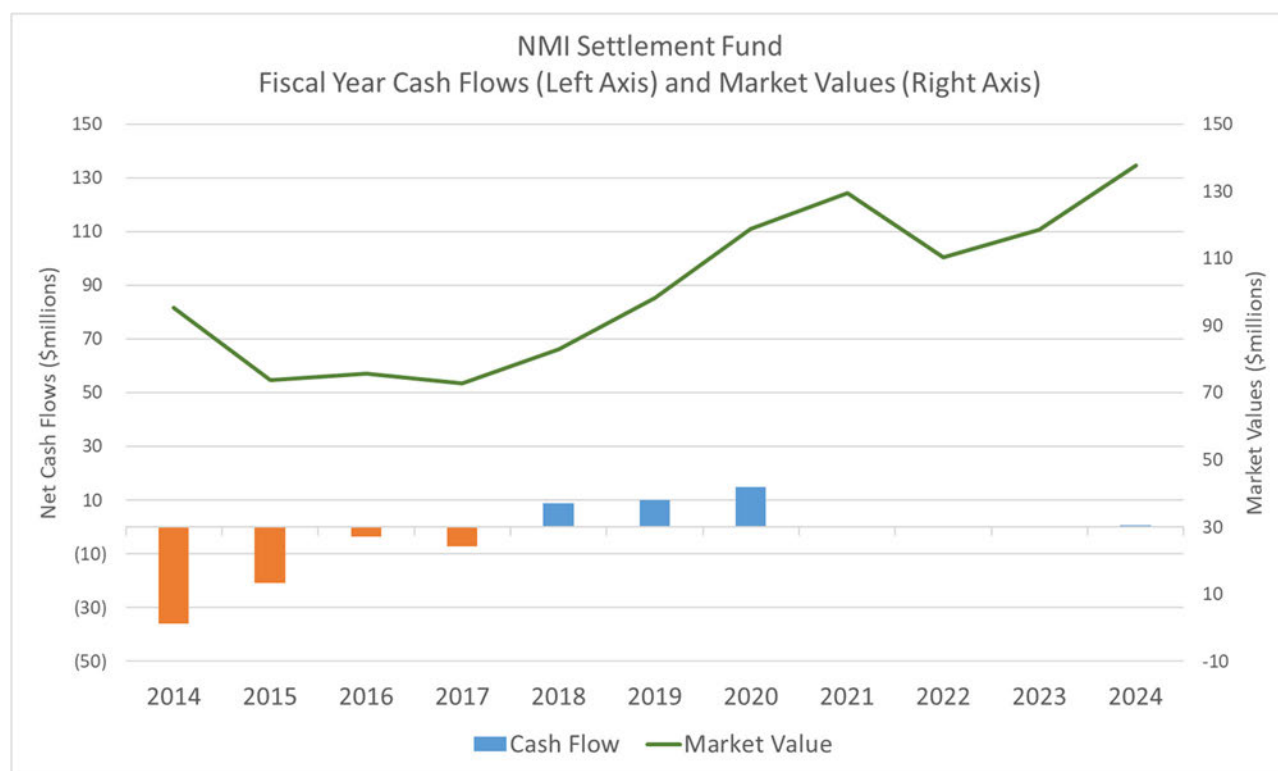
- After aggressively raising interest rates for the most part of 2022 and 2023, major Central Banks started their easing cycle. Following the European Central Bank's and Bank of Canada's rate cuts earlier in 2024, the U.S. Federal Reserve stopped its rate

hike in 2024 and started easing in September 2024. The policy pivot signaled concerns of imbalances of global growth in the post-COVID era. With the high interest rates in the U.S., global capital continued to flow into U.S. assets, pushing up the value of the U.S. Dollar. The strong dollar, while helped push down the U.S. inflation, eroded the purchasing power of other countries and posed a growth drag in Europe and emerging economies.

- The rate easing cycle, through the “glass half-full” lens, signaled continued liquidity support to the capital markets via the form of lowered borrowing cost. The global markets generally reacted positively to the policy changes celebrating liquidity injections with rallies in stocks, bonds, commodities and other markets.
- Geopolitical tensions advanced further after the Hamas invaded Israel in October 2023. Israel launched major assaults into Gaza, with the war on-going after recent battles drawing in Iran and groups in Lebanon. The Russia/Ukraine war continues to advance into year three. Despite these ongoing wars, the global markets continued to price in no commodity price disruptions with the assumption that these are isolated wars that would not escalate to the rest of the world. Calm Commodity prices supported gradual decrease of global inflation.
- In the U.S., fiscal policy continued to be supportive during a Presidential election year. Fiscal deficits acted as support to market performance due to the large injection of liquidity through government borrowing. While the long-term prospect of such runaway deficits was worrisome, the near-term support to the stock market was positive.

Under this market backdrop, the Settlement Fund had a Fiscal Year Return (10/1/2023 – 9/30/2024) of 15.58%, outperforming the policy benchmark by 0.52% net of fees and expenses. The strong performance was aided by the recent diversification efforts away from core fixed income into diversified real assets and high yield bonds. Both categories outperformed core bonds and are expected to continue to do so.

The following graph summarizes the net cashflows and fiscal year ending value of the Settlement Fund since inception. As of September 30, 2024, the Settlement Fund has fully recovered from the 2022 market drawdown. Its ending value has reached a high of \$137.8 million since inception.



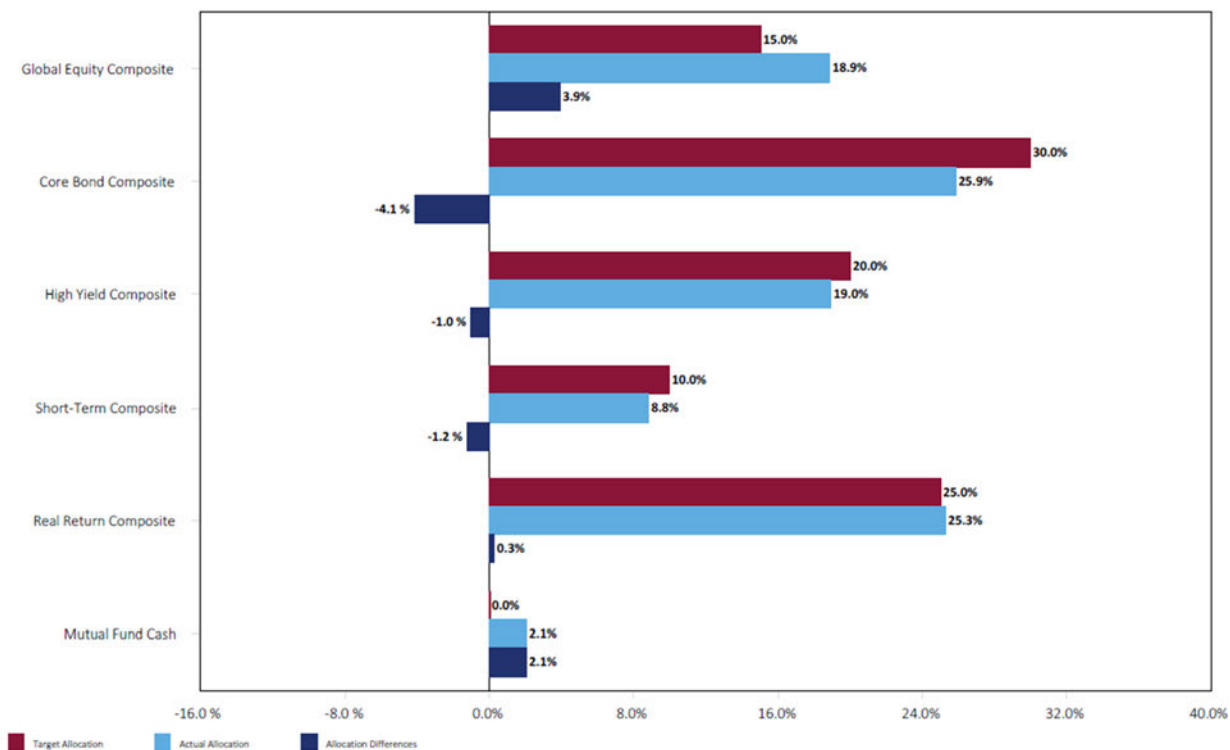
Looking forward, we expect that the policy adjustments post-U.S. election may lead to market rotations and cause higher volatilities. We continue to support managing these potential risks through prudent diversification.

2024 – 2025 Portfolio Targets

Equity	15%
High Yield	20%
Core Bond	30%
Short Term Bond	10%
Diversified Real Return	25%
Expected Return	5.65%
Expected Risk	6.82%

Note: Based on Wilshire’s 2024 mid-year updated capital markets outlook.

As of September 30, 2024, the Settlement Fund’s actual allocation is within the policy range of the targets:



2. Settlement Fund Portfolio Performance

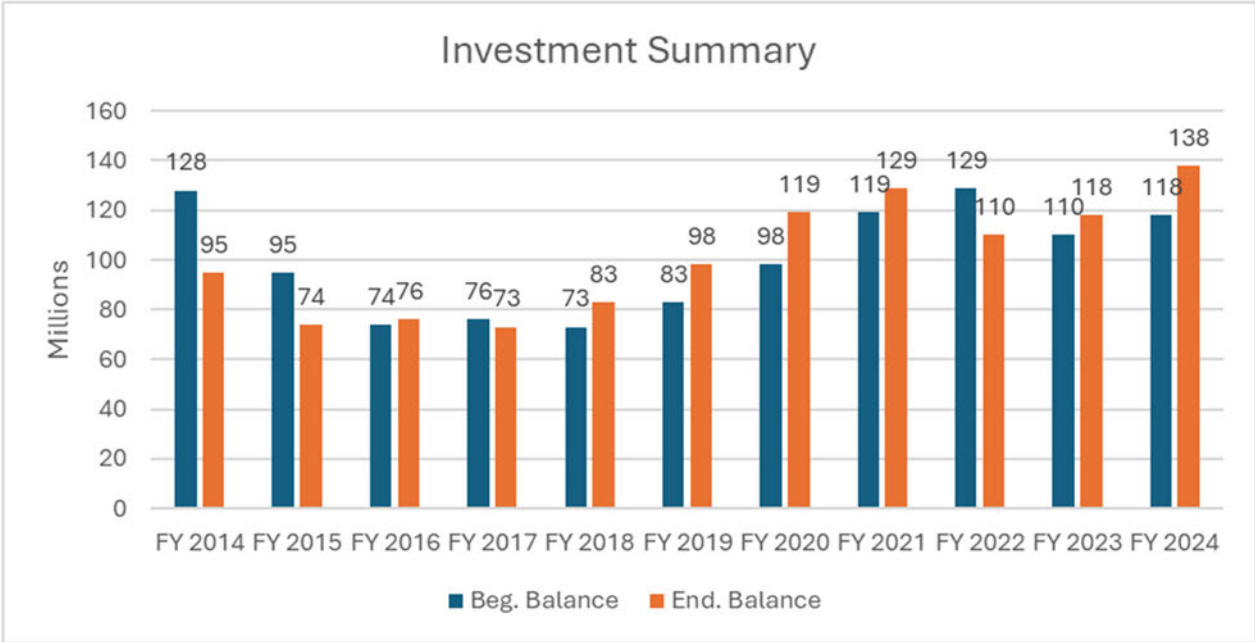
As of the end of November 30, 2024, the Settlement Fund's portfolio balance stood at \$166,281,092.

A summary of the investment reports for FY 2024 and FY 2025 (as of November 30, 2024), showing the beginning and ending investment balances, contributions, gains and losses, and fees, are shown in **Chart 5** below.

Chart 5

Investment Summary FY 2024 - FY 2025 (as of Nov. 2024)						
	Beg. Balance	Net Contributions	Distributions & Adm Fees	Investment Gains/Losses	Inv. Fees	End. Balance
1st Quarter FY 2024 (Oct. - Dec. 2023)	118,461,887		(16,597)	7,591,083		126,036,373
2nd Quarter FY 2024 (Jan. - Mar. 2024)	126,036,673		(17,493)	2,676,302		128,695,181
3rd Quarter FY 2024 (Apr. - June 2024)	128,695,181	2,750,000	(17,690)	1,677,652		133,105,143
4th Quarter FY 2024 (July - Sept. 2024)	133,105,143	(2,000,000)	(18,649)	6,704,733		137,791,227
1st Quarter FY 2025 (Oct.-Nov. 2024)	137,791,227	28,406,000	(12,544)	96,408		166,281,092
		29,156,000	(66,376)	18,746,178		

See *Flash Reports for October and November 2024*, attached hereto as **Exhibit 9**. The Settlement Fund portfolio balances from inception (FY 2014) to September 30, 2024, are shown in the chart below.



The Wilshire monthly and quarterly investment reports are available on the Settlement Fund website: <https://www.nmisf.com/report/main-investment-consultant-reports-2/>.

IV. LITIGATION STATUS

A. *NMI Settlement Fund v. Commonwealth Utilities Corporation*, Civil Action No. 11-0114-CV (NMI Superior Court)

The claims filed against the CUC arose from the CUC’s failure to pay its share of ER contributions due to the NMI Retirement Fund in FY 2008 through the date of the complaint—May 5, 2011. As of April 29, 2011, the CUC owed approximately \$3,175,255. The claims were identified as an asset to be transferred to the Settlement Fund in the Settlement Agreement. *See Settlement Agreement* §§ 1.1, 8.0, 29.0(b), ECF No. 468-1 at 4-5, 16, 34-36.

The parties settled this case for \$3,469,797 and executed a settlement agreement, which was approved by the Court. *See* ECF No. 867. Under the settlement agreement, CUC is obligated to pay to the Fund a minimum of \$50,000 per month until the settlement amount is paid in full. CUC is current: it paid a total of \$850,000 in FY 2024, and \$100,000 in FY 2025 as of the date of this Report. As of the date of this Report, the balance of the settlement amount is \$2,469,797.

B. *Rosa A. Camacho v. NMI Settlement Fund*, Civil Action No. 23-16074 (9th Cir.)

This matter arises from an administrative appeal filed by Class Member Rosa A. Camacho (“Ms. Camacho”), who claimed an underpayment of benefits from the Settlement Fund because the Settlement Fund did not make Cost of Living Adjustment (“COLA”) payments. Because the issue involves jurisdictional and legal issues relating to the interpretation of the Settlement Agreement, the Settlement Fund filed a Motion to Enforce and Confirm “Full Benefit Payments” and “Full Benefits” in the Settlement Agreement, seeking to: enforce the Settlement Agreement against Ms. Camacho; confirm that the Settlement Fund is not required to pay COLA based on the definition of “Full Benefit Payments” and “Full Benefits” in the Settlement Agreement; enjoin

Ms. Camacho from asserting claims or defenses, or relief relating to the terms of the Settlement Agreement through the administrative process in the Appeal Rules and Procedures; and enjoin Ms. Camacho from pursuing action inconsistent with the Settlement Agreement or the exclusive jurisdiction of the Court. Ms. Camacho filed a Cross-Motion to Enforce and Confirm “Full Benefit Payments” and “Full Benefits” in the Settlement Agreement, arguing that “Full Benefits” include COLA and the overtime/compensatory time hours, which were included as credited service in computing her retirement benefits.

In July 2023, the Court granted the Settlement Fund’s Motion and denied Ms. Camacho’s Cross-Motion. ECF No. 861. The Court confirmed that “Full Benefit Payments” and “Full Benefits” in the Settlement Agreement do not include COLA, and the Settlement Fund is not required to pay COLA unless appropriated by the legislature. The Court further ordered that Ms. Camacho raise the issue relating to overtime-compensatory time through the administrative appeals process.

Ms. Camacho appealed the Order with respect to COLA to the Court of Appeals for the Ninth Circuit—Case No. 23-16074. The parties completed briefing, and the Ninth Circuit held oral argument on October 7, 2024. On December 10, 2024, the Ninth Circuit issued an Order Certifying Question to the NMI Supreme Court. *See* ECF No. 875. The NMI Supreme Court accepted the certified question on December 12, 2024, and the matter is pending briefing in the NMI Supreme Court.

C. ADMINISTRATIVE APPEALS

The Administrative Appeals Process, which is governed by the NMISF Appeal Rules and Procedures, was implemented to resolve all disputes between individual members and the

Settlement Fund. *See* Order, ECF No. 739. The Appeals Process involves three stages: (1) Mandatory Mediation, (2) Appeal to Hearing Officer (if mediation is unsuccessful), and (3) Appeal to an Independent Arbitrator (final appeal). *See* NMI Settlement Fund Appeal Rules and Procedures, ECF No. 731-14. As of December 15, 2024, there are 99 pending administrative cases. The Settlement Fund has engaged with most appellants and is in the process of engaging with the remaining appellants. A summary of pending administrative cases is provided in **Exhibit 10**, attached.

1. Appeals Pending Mediation / Settled Cases

In December 2021, the Honorable Daniel P. Collins, Bankruptcy Judge for the U.S. District Court of Arizona, was appointed to serve as mediator for all pending administrative cases. *See* ECF No. 813 at 2. Judge Collins' experience and ability to communicate and work with retirees has contributed to the success of mediation.

Of the cases settled at and outside mediation, eight require Court approval of the settlement repayment term, which exceeds the two-year limitation set forth in 1 CMC § 8390(b) based on the financial circumstances of the appellants. *See* ECF No. 878.

Through the efforts of the Settlement Fund attorneys, 65 cases have settled outside of formal mediation—48 cases in FY 2024 and 18 cases in FY 2025 as of the date of this Report. A list of these cases is provided in **Exhibit 11**, attached.

2. Hearings Before Hearing Officer and Arbitrator

In July 2022, the Court issued an order approving the appointment of attorney Deborah Fisher as the Hearing Officer. *See* ECF No. 840. In the last Report, the Settlement Fund reported that one appeal was pending a decision by the Hearing Officer. The Hearing Officer has since

issued a decision, and this has been appealed to the Arbitrator. *See* **Exhibit 10**. One additional matter is pending a hearing before the Hearing Officer.

3. Appointment of New Hearing Officers and Arbitrator

To assist with administrative proceedings, attorney Deborah Fisher was previously selected and approved as a hearing officer, and attorney Richard Johnson as arbitrator. *See* ECF Nos. 739, 840. Attorney Fisher closed her law firm in May 2024. The Fund is in the process of soliciting for the hearing officer position. The Settlement Fund is in communication with attorney Johnson to confirm his engagement as arbitrator.

V. STATUS OF LEGISLATION

The Legislature considered several bills that may affect the Settlement Fund and its members. The proposed bills are available at www.cnmileg.net/.

Below is a summary of new bills that may affect Class Members.

	BILL / INITIATIVE / RESOLUTION	STATUS
FUNDING	House Bill 23-115, HD1, HS1, SS2 To appropriate funds for the operations and activities of the Government for FY 2025, including the FY 2025 MAP obligation, \$1 for group health and life insurance (“GHLI”) for retirees, and \$1 for the 25% payments.	Signed into law on September 30, 2024, as Public Law 23-26.
	House Bill 23-96 To designate the casino annual license fee for the 25% payment for retirees.	Pending review by the Senate.
	House Bill 23-104, HD1, SD1 To appropriate \$5,236,000 of the dividends collected by the Commonwealth Economic Development Authority from the Commonwealth Utilities Corporation to pay 25% payment for retirees.	Signed into law on April 11, 2023, as Public Law 23-18.
OVERPAYMENT COLLECTION AND WAIVER	Senate Bill 23-61 To amend 1 CMC § 8390 to prohibit the Settlement Fund from recovering overpayments from retirees, survivors, or the estate of Settlement Fund members; and allow Settlement Fund members to appeal for waivers of overpayments and the Settlement Fund to grant waivers of any overpayment.	Pending with the House.
	Senate Resolution 23-16 To request the Settlement Fund to waive recovery of overpayments of retirement benefits.	Pending with the Senate.

FINANCIAL REPORTING	<p>House Bill 23-112</p> <p>To establish the Office of Financial Integrity and Compliance and Oversight Committee to improve the Government's financial management and reporting.</p> <p>Notes that the FY 2020 audit issued adverse opinions "for the aggregate remaining fund information and aggregate discretely presented component units because the financial statement did not include" the CHCC and NMI Settlement Fund.</p>	Pending with the House.
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The Settlement Fund will continue to monitor and report on bills, which affect the Settlement Fund and Class Members.

Respectfully submitted this 2nd day of January 2025.

CIVILLE & TANG, PLLC

/s/
Joyce C.H. Tang
Trustee